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C O N F I D E N T I A L SECTION 01 OF 02 TBILISI 001920

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SUBJECT: GEORGIA: GOVERNMENT SUBMITS NOTIONAL BUDGET TO PARLIAMENT

REF: TBILISI 1840

Classified By: Deputy Chief of Mission Kent Logsdon for reasons 1.4 (b) and (d).

¶1. (C) The Government's notional draft of the 2010 budget submitted to Parliament shows the economic difficulties facing the country and contains cuts across the board (except in key social spending areas). While the draft meets the Government's technical and legal requirements, it does not provide exact amounts or line items. The Government is required to submit a more detailed budget to Parliament by November 1. Later in November, parliamentary debates will begin in earnest. Undoubtedly, based on parliamentary concerns and interests, the budget will be amended repeatedly before a final document is approved in December. The significant decreases in government revenues for 2009 and expected revenues in 2010, coupled with the GOG's pledge to the IMF to decrease the budget deficit from nine to seven percent of GDP in 2010 will require significant and painful budget cuts. Nearly all government ministries and the President's office itself are facing large cuts, with some losing upwards of 60 percent of their 2009 budgets. In pure dollar terms, the Ministry of Defense is the biggest loser as its budget will shrink by USD 88 million.

¶2. (C) The draft budget submitted to Parliament is intentionally scant on details, as the government has yet to decide where the deepest cuts will occur. The submitted draft sets revenues at GEL 4.865 billion (USD 2.913 billion) and expenditures at GEL 5.28 billion (USD 3.161 billion). The deficit will likely be financed by a combination of budget support from international donors and an expansion of domestic debt issuance. The draft budget presupposes two percent GDP growth and three percent inflation in 2010. It also forecasts no significant changes in the value of the lari. In comparison, the projected revenue for 2009 was GEL 5.510 billion (USD 3.053 billion) and projected expenses were GEL 5.252 billion (USD 3.145 billion).

FINANCING SOCIAL PAYMENTS AND POLITICS

¶3. (SBU) In a move to decrease government expenditures while maintaining social services and payments, all but one ministry will take budget cuts. Based on GOG information, only the Ministry of Education and Science will see a budget increase (from GEL 519 million (USD 310.78 million) in 2009 to GEL 527 million (USD 315.57 million) in 2010). The Ministry of Labor, Healthcare and Social Protection's budget will decrease slightly from GEL 1.534 billion (USD 919 million) in 2009 to GEL 1.529 billion (USD 916 million) in 2010.

¶4. (SBU) The Parliament is also slated to receive a slight increase from GEL 39.9 million (USD 23.89 million) in 2009 to GEL 43 million (USD 25.75 million) in 2010. The Central

Election Committee (CEC) will also see a slight increase to cover the cost of conducting local elections in 2010. Out of the GEL 36.3 million (USD 21.74 million) budgeted for the CEC, GEL 6.3 million (USD 3.77 million) is earmarked to fund political parties. Public Broadcasting was cut slightly from GEL 25.5 million (USD 15.27 million) in 2009 to GEL 22 million (USD 13.17 million) in 2010. The Public Defender's Office is budgeted to receive GEL 1.9 million (USD 1.14 million) versus the GEL 2 million (USD 1.20 million) received in 2009. The official budget for the Georgian Orthodox Church will remain unchanged at GEL 25 million

PAINFUL CUTS IN DEFENSE, INFRASTRUCTURE SPENDING

¶5. (SBU) For the second year in a row, the Ministry of Defense will take the largest budget cut in dollar figures. The proposed 2010 budget shaves off another GEL 147 million (USD 88 million), bringing the total proposed defense budget to GEL 750 million (USD 449.11 million). In 2008, the Ministry of Defense received 1.547 billion (USD 926 million) and in 2009 GEL 897 million (USD 537 million). The Ministry of Regional Development and Infrastructure will receive a GEL 94 million (USD 56.29 million) cut in its budget. While the GOG's aggressive infrastructure program will be slowed, many of the most essential projects will be continued off budget with international donor funding. The Ministry of Economic Development (MOED) and the Ministry of Energy both took significant percentage cuts in their budgets, with MOED losing 67 percent of its 2009 funding and Ministry of Energy 72 percent. A MOED official said that the serious budget cuts would likely require structural reforms within the Ministry, but that he hoped layoffs would not be necessary.

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Both the Ministry of Agriculture and Ministry of Refugees and Accommodations lost nearly 60 percent of their funding when compared with 2009 levels. The Presidency and the Government administration accounts will decrease from GEL 50 million (USD 29.94 million) in 2009 to 25 million (USD 14.97 million) in 2010.

COMMENT: THINGS MIGHT BE LOOKING UP, BUT NOT FAST ENOUGH

¶6. (C) Many in the government believe that Georgia experienced the worst of its economic crisis in May and June 2009, and that things have started to look up. While consumer confidence seems to be slowly returning, government revenue collection remains lower than expected (reftel). The Government's decision to announce a new round of privatizations may also be intended to help increase revenue. Nevertheless, the painful cuts required by this new revenue reality will affect nearly every government entity -- including those areas important to the President. In many, it will undoubtedly require structural reform including layoffs and even mandate changes. Rumors have long circulated that the Ministry of Economic Development and Ministry of Energy might merge. It is possible, given the serious projected cuts in budget for these two ministries, that a merger could be ahead.

BASS